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CONFIDENTIAL

SIPDIS
TELEGRAM

July 21, 2004

To: No Action Addressee
Action: Unknown
From: AMEMBASSY ABU DHABI (ABU DHABI 2437 - ROUTINE)
TAGS: EPET, PGOV, BEXP, ENRG, ECON, EINV
Captions: None
Subject: UAE NEARING MAXIMUM OIL PRODUCTION LIMITS
Ref: None

CONFIDENTIAL ABU DHABI 02437

SIPDIS
Laser1:
INFO: FCS
CXABU:
ACTION: ECON
INFO: P/M AMB DCM POL

DISSEMINATION: ECON
CHARGE: PROG

APPROVED: CDA: RALBRIGHT
DRAFTED: ECON:CCRUMPLER
CLEARED: NONE

VZCZCAD1568
RR RUEHC RUEHHH RUEHDE RUCPDOC RHEBAAA
DE RUEHAD #2437/01 2031153
ZNY CCCCC ZZH
R 211153Z JUL 04
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 5206
INFO RUEHHH/OPEC COLLECTIVE
RUEHDE/AMCONSUL DUBAI 4175
RUCPDOC/USDOC WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

CONFIDENTIAL SECTION 01 OF 02 ABU DHABI 002437

SIPDIS

NOFORN

DEPT FOR NEA/RA, NEA/ARP, INR/EC, EB/IEP, EB/CBA
USDOE FOR INT'L AFFAIRS - COBURN, ALSO CALIENDO
USDOE FOR OFFICE OF THE SECRETARY - RHONDA HUDOME
USDOC FOR 1000/OC/
USDOC FOR 4520/ITA/IEP/ONE
USDOC FOR 4530/ITA/MAC/ONE/DGUGLIELMI
4500/ITA/MAC/DAS/WILLIAMSON
3131/CS/OIO/ANESA

E.O. 12958: DECL 07/21/2009
TAGS: EPET PGOV BEXP ENRG ECON EINV TC
SUBJECT: UAE NEARING MAXIMUM OIL PRODUCTION LIMITS

REFS: A) STATE 149293

B) ABU DHABI 2339
C) ABU DHABI 2254

D) ABU DHABI 2028 AND PREVIOUS

¶11. (U) Classified by Charge d'Affaires Richard A. Albright, a.i., for reasons 1.5 (B) and (D).

¶12. (C/NF) Summary: During a July 20 meeting with Charge and Econoff, Abu Dhabi National Oil Company (ADNOC) Deputy CEO and new member of the Supreme Petroleum Council (see ref C) Abdullah Nasser Al-Suweidi stated that the UAE has taken concrete steps to increase oil production and bring down oil prices, but is quickly approaching its production capacity. The UAE is producing nearly 2.5 million barrels per day (mbd), and could move to its maximum sustainable capacity of 2.6 fairly quickly. The UAE could reach its short-term surge capacity of 2.8 mbd only if it lifted restrictions on flaring gas. End summary.

Current Oil Output

¶13. (C/NF) Al-Suweidi emphasized that the UAE could comfortably produce 2.6 mbd -- 1.3 mbd from Abu Dhabi's onshore fields (operated by ADCO), 600,000 b/d from the ADMA-OPCO operated offshore fields, approximately 550,000 b/d from the offshore Zakum fields, and less than 130,000 b/d from Dubai. He suggested that production could surge to 2.8 mbd only if the UAE lifted restrictions on flaring gas. (Note: ADNOC has a "Zero Flaring" policy out of concern for potentially damaging Abu Dhabi's fields and resultant environmental fall-out. But since GASCO, the local gas processing company, does not have the capacity to manage the additional associated gas, higher oil output would require the flaring of the excess gas. End note.)

¶14. (C/NF) Al-Suweidi acknowledged that while ADNOC could hypothetically reach 3.0 mbd at the well-head, being able to actually move, process, and export that amount would require significant investment to increase the capacity of the surface facilities (i.e. the collection and processing facilities).

Plans To Increase Production

¶15. (C/NF) Al-Suweidi told Charge that ADNOC already had developed plans to increase Abu Dhabi's sustainable production capacity to 2.7 mbd by end 2005 and 3.0 mbd by 2008, most of which would come from new production in the Upper Zakum field and smaller offshore fields. Development of these other offshore fields requires major investments in infrastructure, however, and will take some time. He added that ADCO's (onshore) production capacity had fallen 100,000 b/d during the last year, but -- with field upgrades -- would again increase to 1.4 mbd by the end of 2005.

¶16. (C/NF) Al-Suweidi confirmed that ADNOC is making progress on its evaluation of the final three bids from ExxonMobil, BP and Shell to develop the Upper Zakum field (ref D). ADNOC recently dispatched a technical team to Houston, London and The Hague, respectively, to consult with oil execs from each of the three companies. Al-Suweidi would not speculate about when the SPC might make a decision on Zakum, and noted that ADNOC had not even given the oil companies a deadline for submitting improvements to their offers. Al-Suweidi added that Upper Zakum probably would be the last concession for a while, as ADNOC had no intention of offering new concessions to international oil companies in the near future. "We have a good mix of international participation here," and ADNOC probably would renew any old concessions set to expire in the coming years (i.e. a Japanese concession in 2011 and other small concessions in 2013/14).

Comment

¶7. (C) Although not specifically addressed by Al-Suweidi, there are other factors that could temporarily limit the UAE's oil production. The weather and high winds sometimes prohibit full production from the offshore facilities. Regularly scheduled maintenance also can affect the production of any one field for an extended period of time. Finally, ADNOC would have to receive specific instructions from the Supreme Petroleum Council (SPC) to increase production significantly above current levels and flare gas. Al-Suweidi's recent appointment to the SPC, however, and his claim that "[all SPC members] think the same way," make us less concerned that the SPC would contradict ADNOC.

Albright